



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Julia H. Cooper

SUBJECT: SEE BELOW

DATE: July 21, 2014

Approved

Date

7/29/14

SUBJECT: PUBLIC AGENCY COOPERATIVE PURCHASE OF TELECOMMUNICATION SERVICES

RECOMMENDATION

Adopt a resolution authorizing the City Manager to:

- (1) Execute multiple master services agreements and other necessary documentation with AT&T and Verizon to extend the City's participation under the State of California ("State") Integrated Telecommunications Network "CalNet2" cooperative agreements for core telecommunications and related services, in a total cumulative amount not-to-exceed \$4,925,000 for the Fiscal Year ending June 30, 2015, and a subsequent seven month term ending January 29, 2016 (when CalNet2 ends) subject to annual appropriations; and
- (2) Execute multiple master services agreements and other necessary documentation for the City to participate in the State's next generation CalNet3 Program, and transition from CalNet2 pursuant to the pricing, terms and conditions of the CalNet3 cooperative agreements, and future generations of CalNet, as may be required, subject to the appropriation of funds.

OUTCOME

Continue to provide cost effective telecommunication services Citywide including local/long distance, network and internet services at discounted (non-tariff) rates.

BACKGROUND

Periodically the State of California Department of Technology Services procures deeply discounted telecommunications services through volume purchases on behalf of itself and other state and local government agencies. These contracts are also known as "CalNet." The City of

San José has utilized CalNet since 1984 to purchase a variety of telecommunication services and products including Centrex and non-Centrex business services and associated local and long distance services; analog and digital data services; voicemail and call routing services; and internet services. In January 2008¹, the City Council approved a six year cooperative agreement through the second generation CalNet ("CalNet2).

The CalNet2 Agreement provides public agencies with a comprehensive collection of integrated enterprise network services and consists of four Master Service Agreements (MSAs). The City has been using the applicable MSA services with the selected providers as shown below:

<u>Modules</u>	<u>MSA</u>
Module 1: Voice, Data and Video Services	AT&T
Module 2: Long Distance and Network Based Services	AT&T
Module 3: IP Voice, Data and Video Services	Verizon
Module 4: Broadband Fixed Wireless Access Services	Verizon

CalNet2 also provides a benefit for the City's libraries to qualify for additional E-Rate (Education Rate) Program discounts. As part of E-Rate, telecommunications carriers must offer their lowest corresponding rates to K-12 schools and libraries. Further, schools and libraries are allowed additional 20 to 90% discounts on top of the lowest corresponding rate for telecommunication services, internet access and internal connections. Annual cost savings to the City often exceed \$125,000 from AT&T under the E-Rate Program.

The State has recently completed a new competitive Request for Proposal (RFP) solicitation process for the third generation of the CalNet Program referred to as "CalNet3" for telecommunication services and executed agreements with an initial term from November 15, 2013 through June 20, 2018 with two additional one-year options to extend. Due to delays in the rollout, the State extended CalNet2 through January 29, 2016 to allow participating agencies sufficient time to transition to CalNet3. This extension only applies to existing services; new services must be purchased through CalNet3.

ANALYSIS

CalNet3 offers all the existing telecommunications and network services offered in CalNet2 plus it expands on services to accommodate changing technologies. As a result of the multiple levels in the State's competitive procurement process, numerous service providers were selected for the seven major service categories described below:

¹ Link to 2008 Council Memo: http://www3.sanjoseca.gov/clerk/Agenda/010808/010808_03.08.pdf



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Category

Awarded to

Category 1 – Voice & Data Services

- Subcategory 1.1 Dedicated Transport
- Subcategory 1.2 Multipleprotocol Label Switching (MPLS), Virtual Private Network (VPN) Converged VoIP Telephony
- Subcategory 1.3 Standalone VoIP Telephony
- Subcategory 1.4 Long Distance Calling
- Subcategory 1.5 Toll Free Voice Calling
- Subcategory 1.6 Legacy Telecommunications

AT&T, Verizon
AT&T, Verizon, Integra, Jive, NWN
AT&T, Verizon, Integra, Jive
AT&T, CenturyLink
AT&T, Verizon, CenturyLink
AT&T

Category 2 – Network Based Web Conferencing

AT&T, CenturyLink, NWN

Category 3 – Metropolitan Area Network (MAN) Ethernet

AT&T, CenturyLink, Integra

Category 4 – Synchronous Optical Network (SONET)

- Subcategory 4.1 SONET Ring Connectivity
- Subcategory 4.2 SONET Point-to-Point Connectivity

Verizon, Integra
AT&T, Verizon and Integra

Category 5 – Managed Internet Services

AT&T, Integra

Category 6 – Call Center Telephony (Hosted IVR/ACD Services)

AT&T, Verizon, NWN

Category 7 – Network Based Managed Security

AT&T, Verizon, CenturyLink

As mentioned previously, there are significant cost saving benefits by leveraging the State's purchasing power under the CalNet multi-billion dollar contracts. The City will receive a discount between 28% - 80% off the published tariff rates for various telecommunication services through the CalNet3 Agreement. These discounts translate into annual cost savings to the City of approximately \$1.9 million in reduced tariff rates. The favorable contract pricing is fixed for the term of the contract. However, the State does have the ability to renegotiate lower prices as may be appropriate. Since the CalNet contracts are the result of the State's extensive competitive bidding process, State and local agencies can purchase services directly from the contract with the confidence that all government requirements for competitive bidding have already been met.

Section 4.12.225 (B.3) of the San José Municipal Code authorizes the City to contract for these services directly with vendors on terms obtained pursuant to the competitive procurement process which substantially complies with the City's procurement procedures and names the City of San Jose either specifically or categorically as a third party beneficiary of the bidding process.

EVALUATION AND FOLLOW-UP

This memorandum will not require any further follow-up from staff.

POLICY ALTERNATIVES

Alternative #1: The City conducts its own Request for Proposal (RFP) process.

Pros: The City would have more control over the content of the RFP.

Cons: The State's competitive process is very similar to that of the City's. In addition, the large volume of services purchased enables greater price leveraging, thereby resulting in lower total costs to the City.

Reason for Not Recommending: It is unlikely the City can obtain better pricing or terms than those of the State's CalNet Program.

PUBLIC OUTREACH/INTEREST

☒ **Criterion 1:** Requires Council action on the use of public funds equal to \$1,000,000 or greater. **(Required: Website Posting)**

☐ **Criterion 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**

☐ **Criterion 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

This item meets Criterion 1: Requires Council action on the use of public funds equal to \$1,000,000 or greater. This memorandum will be posted on the City's website for the August 12, 2014, City Council agenda.

COORDINATION

This memorandum has been coordinated with the Information Technology Department, City's Manager's Budget Office, and the City Attorney's Office.

FISCAL/POLICY ALIGNMENT

This action is consistent with the following General Budget Principles: "We must focus on protecting our vital core city services for both the short and long-term;" "We must continue to streamline, innovate, and simplify our operations so that we can deliver services at a higher quality level, with better flexibility, at a lower cost;" and the Strategic Initiative "Make San José a Tech-Savvy City; lead the way in using technology to improve daily life."

COST SUMMARY/IMPLICATIONS

The following outlines the elements of the contract.

1. AMOUNT OF RECOMMENDATION : **\$4,925,000**

2. COST ELEMENTS OF AGREEMENT:	Estimated Breakdown	Estimated Total
- All core Services including VoIP	\$3,850,000	
- Long Distance Voice	\$100,000	
- Internet Services	\$300,000	
- PCI and Security Consulting	\$175,000	
- Technical/Network Consulting Services	\$500,000	
Not-to-Exceed Amount		\$4,925,000

3. SOURCE OF FUNDING: Various Department Funds

4. FISCAL IMPACT: Funding is available in departmental annual appropriations.

BUDGET REFERENCE

Funding is available in various departments and funds per annual appropriations.

CEQA

Not a Project, File No. PP10-066(a), Agreements and Contracts.

/s/

JULIA H. COOPER
Director of Finance

For questions, please contact Mark Giovannetti, Deputy Director of Finance, at (408) 535-7052.